REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

COUNTY ASSEMBLY OF MERU

FOR THE YEAR ENDED 30 JUNE, 2019

OFFICE OF THE AUDITOR - GENERAL
EMBU HUB P. O. Box 113 - 60100, EMBU
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COUNTY ASSEMBLY OF MERU
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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1. KEY COUNTY ASSEMBLY OF MERU INFORMATION AND MANAGEMENT

(a) Background information

The County Assembly is constituted as per the constitution of Kenya and headed by the County Speaker, who is responsible for the general policy and strategic direction of the County. The County Assembly is made up of 45 Members of the County Assembly (MCAs) elected to represent members of the public from their respective wards and 24 nominated members to represent different groups. The MCAs are responsible for making laws for effective performance of the County Government, approving plans and policies and playing the oversight role over the County Executive.

(b) Key Management

The County Assembly of Meru day-to-day management is under the following key organs:

- The Office of the Speaker;
- The Office of the Clerk;

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Name.	Designation.
1.	Justus K. Ariithi	Clerk-Accounting Officer
2.	Lawrence Gitari	Director- Finance and Accounting Services
3.	Stanley Karonai	Principal Finance Officer
4.	Phillipa Kiao	Principal Accountant

(d) Fiduciary Oversight Arrangements

The County Assembly of Meru has budget committee that makes the budget for the assembly and the executive, the PAIC that follows up on expenditures and takes management to account, the finance committee that mainly concentrates on sources of revenue for operations and the internal audit committee that formulates and advises on internal control.
The County Assembly committees have different roles among them formulation of policies and plans for proper implementation by the departments in the executive side of the county government. They also liaise with different departments to help bring different government businesses to the house for bills.

(e) County Assembly of Meru Headquarters

P.O. Box 3 - 60200
County Headquarters Building
Kenyatta Highway
Meru, KENYA

(f) County Assembly of Meru Contacts

Telephone: (254) 720088043
E-mail: assembly@meru.go.ke
Website: www.meru.go.ke

(g) County Assembly of Meru Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

Equity Bank Ltd
Meru Branch

(h) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(i) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. FORWARD BY THE CLERK

It has been another year of challenges and achievement for County Assembly of Meru. In the face of significant operational and financial pressures, we have achieved notable success through focusing on our top priorities as approved by the County Assembly of Meru.

Our approved budget for the County Assembly of Meru was Ksh.1,019,216,683 against actual expenditure of Ksh.941,182,008 representing a performance of 92.34% analysed on the table below as per the programme.

Name of the Programme	Printed /Revised Gross Estimates (Kshs.)	Estimates	Final Budget	Actual on comparable basis	Budget Utilization Difference
	Ksh	Ksh	Ksh	Ksh.	Ksh.
Legislation and Representation	440,322,716.00	72,749,442	513,072,158.00	**512,617,536.00**	454,622
Legislative Oversight	232,895,200.00	-344,351	232,550,849.00	**232,550,849.00**	-
General Admin, Planning & Support	238,532,084.00	35,061,591	273,593,675.00	**196,013,623.00**	77,580,052.15
	911,750,000.00	**107,466,682**	**1,019,216,682.00**	**941,182,008.00**	**78,034674.15**

Under financial year 2018/2019, the County Assembly of Meru has debated and passed the following bills;

1. The Meru County Fire and Rescue Service Bill which is aimed at improving on fire disaster preparedness and response.
2. The Meru County Appropriation Bill which basically dictates on the use of resources under the county Government for the benefit of its people.
3. The Meru County Honors and Awards Bill which dictates on the criteria of honouring its heroes as well as awarding its people.
4. The Meru County Tea Cess Bill which aims at realising revenue from tea farmers and producers through levies.

The County Assembly of Meru Passed the Budget and two supplementary budgets on the dates indicated below;

The Meru County Appropriation Bill (Bill No. 8 of 2018) on 17th July 2018

The Meru County Supplementary Appropriation Bill, (No. 9 of 2018) on 5th November 2018

The Meru County Supplementary Appropriation (No.2) Bill, (Bill No. 3 of 2019) on 2nd May 2019.

The County Assembly of Meru is made up of the following Committees in Summary; detail of which can be found in the Standing Orders as last amended by the County Assembly of Meru during the Fifth Session of the First Assembly on 14th June, 2017.

COMMITTEE	ROLES	ACHIEVEMENT
House business	Prepare Assembly Calendar and Oversee house business	The house business is well organized.
Selection	Nominate members to serve in committees	There are already established committees
Appointments	Consider appointments for approval by the assembly	Approvals CECs, board Members have been done
Public Accounts and Investment Committee	Examine reports and accounts	The committee has already examine all reports up to 30th June 2018
Budget and appropriation	Discus and review the estimates	The Appropriation bills have been approved in time
Finance and ICT	Evaluate revenue estimates, economic and policies	A finance bill is already on its final stages
Procedure and Rules	Consider and report on all matters relating to standing orders	The standing order have already been redrafted and reorganised
Powers and privileges	Inquire into any alleged breach by any member of the Assembly on the code of conduct	The members have observed the code of conduct
Implementation	Scrutinize the resolutions of the Assembly, petitions and undertakings given by the County Executive Committee	The committee has ensured all business brought to its attention has been dealt with
Delegated Legislation	Consider any statutory instrument pursuant to the Constitution, any law or Standing orders	The committee has ensured that the Assembly is in adherence to The Constitution.
Liaison	Guide and coordinate the operations, policies and mandates of all committees	The committees are orderly and complete all their tasks
Agriculture	Study programme and objectives of Agriculture department.	Have a number of bills approved
Culture	Study programme and objectives of culture department	Have a number of bills approved
Cohesion	Study and review all county legislation referred to it	Have a number of bills approved
Education	Study programme and objectives of Education department	Have a number of bills approved
Health	Study programme and objectives of Health department	Have a number of bills approved
Labour	Study programme and objectives of Public Service department	Have a number of bills approved

Planning	Study programme and objectives of Planning department	Have a number of bills approved
Justice	Study programme and objectives of Legal Affairs department	Have a number of bills approved
Trade	Study programme and objectives of Trade department	Have a number of bills approved
Transport	Study programme and objectives of Transport department	Have a number of bills approved
Water	Study programme and objectives of water department	Have a number of bills approved

A County Assembly exercises and executes the mandate, role and function by the sovereign power to participate in governance, delegated to them under Section 1(2), (3) and (4) of Constitution of Kenya 2010. They exercise oversight over all issues and matters of governance, especially, the operation of the County Executive Committee and all organs of the County Executive; they receive, deliberate on and approve:-

a) All development plans, programmes, policies and budget of a County Government; as set out in Sections 207, 220 (2), 201 and 203 of the constitution, 2010 and Part IV of the Public Finance Management Act, 2012;

(b) After vetting all nominees for appointment as County Secretary and Chief Officers of the County Public Service;

(c) The borrowing by a County Government in accordance with provisions of Section 212 of the Constitution, 2010.

(d) Appointment of a Clerk of a County Assembly on recommendation of the County Assembly Service Board (CASB).

The County Assembly of Meru has been able to renovate its offices and chambers, install modern hansard system and construct a perimeter wall round the premises. This has ensured security as well as conducive working environment. The refurbished offices are friendly to PWD as well as a provision of public gallery that members of the public use to follow the debates in the house. The County Assembly has a plan to build Honorable Members' offices. This will go a long way in members' welfare as they currently operate from the parking lots with the cars as their offices.

The key challenge experienced in the last financial year included inadequate staff capacity to utilise IFMIS modules, and late release of cash by the national Treasury. The above mentioned challenges have been addressed by collaborating with the national treasury in training the County Assembly staff on IFMIS modules and asking the senate to intervene on late release of county funds by the national treasury.

We thank the National Assembly and the Senate through National Treasury for their continued support.

Clerk
County Assembly of Meru

3. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Sections 164 and 165 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the county assembly shall prepare financial statements of its operations, receiver of revenue and forward the same to the executive for consolidated financial statements for all County Assembly entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Clerk of the Assembly is responsible for the preparation and presentation of the County Assembly's financial statements, which give a true and fair view of the state of affairs of the County Assembly for and as at the end of the financial year ended on June 30, 2019. This responsibility includes:

i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the County Assembly;
iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
iv. Safeguarding the assets of the County Assembly;
v. Selecting and applying appropriate accounting policies; and
vi. Making accounting estimates that are reasonable in the circumstances.

The Clerk accepts responsibility for the County Assembly's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Clerk is of the opinion that the County Assembly's financial statements give a true and fair view of the state of the County Assembly's transactions during the financial year ended June 30, 2019, and of its financial position as at that date. The Clerk further confirms the completeness of the accounting records maintained for the County Assembly which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

The Clerk confirms that the County Assembly has complied fully with applicable Assembly Regulations and the terms of external financing covenants (where applicable), and that the County Assembly's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Clerk confirms that the County Assembly's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The County Assembly's financial statements were approved and signed by the Clerk on 13th September, 2019.

Clerk- County Assembly of Meru

Director- Finance and Accounts

4. **REPORT OF THE INDEPENDENT AUDITORS ON THE *COUNTY ASSEMBLY OF MERU***

Auditor General

Date

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MERU FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Meru set out on pages 1 to 18, which comprise the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Meru as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Governments Act,2012.

Basis for Qualified Opinion

1.0 Presentation of the Financial Statements

1.1 Errors in the Financial Statements

The financial statements contain the following errors and omissions:

i. Signatories to the financial statements have not disclosed their names and registration numbers for the Institute of Certified Public Accountants of Kenya (ICPAK) as required in the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB).

ii. Although Management has explained in the Significant Accounting Policies section of the financial statements how it treats pending bills, no disclosure has been provided in the financial statements of the pending bills, if any, owed by the County Assembly as at 30 June, 2019. As a result, the information on the pending bills does not conform to the reporting requirements set by the PSASB.

iii. Similarly, contrary to the International Public Sector Accounting Standard No 1 and PSASB reporting requirements, the respective financial statements are not properly titled to indicate that they reflect the financial position of the County Executive as at 30 June, 2019, and of its operations for the year then ended.

1.2 Discrepancy in the Opening Cash Balance of the Statement of Cash Flows

The statement of cash flows reflects nil balance for cash and cash equivalents at the beginning of the year. However, the statement reflects a 2017/18 closing balance of Kshs.608 resulting to an unreconciled variance of Kshs.608.

1.3 Unexplained Variance in Receipts Balance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects nil balances for the final budgeted receipts and the actual receipts. However, the approved receipts budget reflects Kshs.1,019,216,683 while the statement of receipts and payments reflects actual receipts totalling Kshs.941,182,191 for the year under review. No explanation has been provided by Management for the failure of the budget balances to tally in the three (3) sets of records.

In view of these discrepancies, the financial statements for the year ended 30 June, 2019 do not conform to the IPSAS and the PSASB reporting requirements, and further, the accuracy and completeness of balances cited has not been confirmed.

2.0 Variances Between Financial Statements and Ledger and Cashbook Expenditure Balances

The statement of receipts and payments reflects Kshs.327,711,603 in respect to ten (10) expenditure items while the respective supporting ledgers reflect expenditure totalling Kshs.325,417,833 in respect of the items resulting to an unexplained variance of Kshs.2,293,770 as detailed in Appendix I of this report. Further, the financial statements reflect expenditure totalling Kshs.9,541,396 in respect of several items whose balance, however, differs with payments totalling 9,455,453 reflected in the cash book in respect of the items as shown in Appendix II. Management has not explained the variance of Kshs.4,444,097 between the two sets of records.

In the circumstances, the accuracy and completeness of these balances has not been confirmed.

3.0 Unsupported Cash and Cash Equivalents Balance

As disclosed in Note 7 to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.183 which includes a nil balance at a local bank. However, review of the bank statement issued by the bank revealed an overdraft of Kshs.1,070,220. Contrary to Section 82(7) of the Public Finance Management Act (County Government) Regulations,2015, Management did not have authority from the County Treasury to operate the bank overdraft. In addition, the recurrent vote bank account reflects stale cheques amounting to Kshs.328,090 which have not been reversed in the cash book. As a result, the cashbook balance is understated by this amount. Further, payments in bank statement not recorded in the

cashbook amounting to Kshs.160,000 have remained outstanding since November, 2013. Similarly, Kshs.38,166 in respect to outstanding payments in bank not in cash book and Kshs.250,000 outstanding receipts in bank not in cash book have been outstanding since September, 2018 and February, 2019 respectively contrary to Regulation 90(3) of the Public Finance Management (County Government) Regulations, 2015.

Further, the bank confirmation certificate, availed for audit review, reflects a balance of Kshs.10,851,892 which differs from the sum of Kshs.183 reflected in the statement of assets and liabilities in respect to cash and cash equivalents. The variance amounting to Kshs.10,851,709 between the two sets of records has not been explained by Management.

In the circumstance, the accuracy, completeness and validity of cash and cash equivalents balance of Kshs.183 reflected in the statement of assets and liabilities as at 30 June, 2019 has not been confirmed.

4.0 Unexplained Variance and Omissions in the Fixed Assets Register

Annex 1 to the financial statements reflects fixed assets with an aggregate value of Kshs.211,593,293 as at 30 June, 2019. However, the fixed assets register, availed for audit review, reflected assets valued at Kshs.286,550,236 resulting to an unexplained variance of Kshs.74,956,943 between the two sets of records. In addition, assets inherited from the defunct local authorities were not included in the assets register. Further, historical costs were not disclosed in the asset register contrary to Annex 5 of the PSASB reporting template which requires the costs to be disclosed in the summary of fixed assets register.

In the circumstances, the accuracy, completeness and valuation of the fixed assets balance totalling to Kshs.211,593,293 reflected in the financial statements has not been confirmed.

5.0 Unsupported Use of Goods and Services

The statement of receipts and payments reflects payments for use of goods and services totalling to Kshs.477,398,155, as further disclosed in Note 4 to the financial statements. Examination of sampled records indicated the following anomalies in respect to the expenditure:

i. Supporting documents for domestic travel and subsistence allowance payments totalling Kshs.27,662,500 were not availed for audit review.

ii. Payments totalling Kshs.15,046,000 were made to the Members of County Assembly for travelling outside Meru County for seminars and report writing sessions. These activities could have been carried out in the County for prudent use of funds.

iii. Out of foreign travel and subsistence imprests totalling Kshs.7,601,810 spent by the MCAs on a trip to Japan, Kshs.1,405,458 was not accounted for.

iv. Management paid the County Assembly Forum (CAF) membership subscription amounting to Kshs.3,500,000, under other operating expenses. However, the expenditure documents did not specify the activities funded and authority for the payments or acknowledgement of the funds by the CAF.

v. Fuel, oil and lubricants costing Kshs.2,995,600 were procured directly from suppliers without competitive bidding. The purchase was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act 2015, which states that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, Management did not avail for audit review the supply contracts and fuel registers showing how the supplies were consumed.

In the circumstances, the occurrence and validity as well as value for money on the fuel and lubricants supplies bought at Kshs.2,995,600 and included in the use of goods and services of Kshs.477,398,155 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Meru Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to report in the year under review.

Other Matter

Incomplete Report on Prior Year Issues

The report on progress made on follow-up of auditor recommendations reflected under other Important disclosures indicates that all issues highlighted in the audit report for the previous year have since been resolved. However, records or other evidence indicating how the matters were resolved were not availed for audit review. As a result, I consider the issues as unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion , Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

Non-Compliance with the One-Third Rule on Basic Salaries

The statement of receipts and payments reflects receipts totalling Kshs.941,182,191 and compensation of employees expenditure totalling Kshs.442,045,191. The wage bill, therefore, constitutes 47% of the total receipts of the County Assembly contrary to Section 25(1b) of the Public Finance Management (County Governments) Regulations, 2015 which prescribes that the ratio should not exceed 35%.

In the circumstances, the Management is in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Risk Management Policy and Report

As in the previous year, Management did not provide evidence that it had put in place a risk management policy to support robust operations as prescribed in Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

In addition, no formal risk assessment reports on the operations of the County Assembly were published by Management during the year under review.

It was therefore not possible to confirm how risks to the operations of the County Assembly were identified, their significance estimated and likelihood of their occurrence determined, and the measures established to contain their possible effects.

2.0 Lack of Internal Audit Charter

Review of the interim report of the Internal Audit Committee for the period 1 July, 2018 to 31 December, 2018 revealed that although an Internal Audit Charter had been prepared, it had not been approved by the Management.

In the circumstances, the County Assembly's internal audit function may not been effective.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the County Assembly's ability to continue to sustain its services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to dissolve the County Assembly or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Assembly monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast

significant doubt on the County Assembly's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue sustaining its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Assembly to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

11 February, 2021

Appendices

Appendix I : Variance Between Financial Statements and Ledger Balances

No.	Component	Financial Statements Balance (Kshs)	Ledger Balance (Kshs)	Variance (Kshs)
1	Basic wages of Temporary Employees	42,341,055	42,735,898	(394,843)
2	Pension and other Social Security Contributions	51,832,724	51,892,504	(59,780)
3	Printing, Advertising and Information Supplies and Services	8,699,999	8,627,827	72,172
4	Hospitality Supplies and Services	71,424,261	71,426,449	(2,188)
5	Specialized Materials and Services	610,350	609,349	1,001
6	Office and General Supplies and Services	5,427,799	5,770,436	(342,637)
7	Routine Maintenance-Vehicles and Transport Equipment's	2,999,999	2,955,262	44,737
8	Routine Maintenance-other Assets	571,280	597,971	(26,691)
9	Other Operating Expenses	54,295,799	51,295,799	3,000,000
10	Equity bank – MCAs Mortgage Account	89,508,337	89,506,338	1,999

Appendix II: Variance between the Financial Statements and Cash Book

Component	Note	Financial statements figure (Kshs)	Cashbook figure (Kshs)	Variance Kshs.
Utilities, Supplies and Services	4	2,430,000	1,949,569	480,431
Communication, Supplies and Services	4	2,929,584	2,515,509	414,075
Specialized Materials and Services	4	610,350	383,908	226,442
Routine maintenance Motor Vehicle and Transport Equipment	4	2,999,999	2,278,236	721,763
Routine maintenance - Other Assets	4	571,280	148,971	422,309
Cash and Cash Equivalents	7	183	2,179,260	2,179,077

5.1 STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2018-2019	2017-2018
		Kshs.	Kshs.
Balance B/F			-
RECEIPTS			
Transfer from National Treasury	1	941,182,191	1,174,034,275
Transfers from other Govt entities	2	-	10,907,917
TOTAL REVENUES		**941,182,191**	**1,184,942,192**
PAYMENT			
Compensation of Employees	3	442,045,191	396,292,667
Use of goods and services	4	477,398,155	365,912,233
Other grants and transfers	5	12,000,000	400,000,000
Acquisition of Assets	6	9,738,662	22,736,684
TOTAL PAYMENTS		**941,182,008**	**1,184,941,584**
BALANCE C/D		**183**	**608**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

Clerk- County Assembly of Meru

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5.2 STATEMENT OF FINANCIAL ASSETS AND LIABILITIES

	Note	2018-2019	2017-2018
		Kshs.	Kshs.
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	7	183	608
Total Cash and Cash Equivalents		**183**	**608**
Fund Balance B/F	**8**		-
Surplus/Deficit for the Year		**183**	**608**
NET FINANCIAL POSITION		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

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5.3 STATEMENT OF CASHFLOW

	Note	2018-2019	2017-2018
		Kshs.	Kshs.
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts for operating income			
Transfers from National Treasury	1	941,182,191	1,174,034,275
Transfers from other Govt entities	2	-	10,907,917
		941,182,191	**1,184,942,192**
Payments for operating expenses			
Compensation of Employees	3	442,045,191	396,292,667
Use of goods and services	4	477,398,155	365,912,233
Other grants and transfers	5	12,000,000	400,000,000
		931,443,346	**1,162,204,900**
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	6	9,738,662	22,736,684
		9,738,662	**22,736,684**
NET INCREASE IN CASH AND CASH EQUIVALENT		183	608
Cash and cash equivalent at BEGINNING of the year	7	-	-
Cash and cash equivalent at END of the year		**183**	**608**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

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5.4 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS: RECURRENT AND DEVELOPMENT COMBINED

Revenue/ expense item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization difference	% of Utilization Difference
	a	b	C=a+b	d	E=d-c	F=e/c%
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Balance B/F	-	-	-	-	-	-
RECEIPTS						
Exchequer releases	941,182,191	-	-	-	-	-
County Executive		-	-	-	-	-
Total Receipts						
Payments						
Compensation of Employees	455,519,548	-13,019,734	442,499,814	442,045,191	454,623	0.10%
Use of Goods and Services	389,730,452	87,756,280	477,486,732	477,398,155	88,577	0.02%
Other Grants and Transfers	-	12,000,000	12,000,000	12,000,000	-	0.00%
Acquisition of Assets	66,500,000	20,730,137	87,230,137	9,738,662	72,261,475	88.12%
Total	**911,750,000**	**107,466,683**	**1,019,216,683**	**941,182,008**	**72,804,675**	**7.14%**

Note: The underutilization difference in acquisition of assets is high due to procurement processes involved in land for the speaker's residence. There has been change in acreage from 2 acres to 1 acre which has resulted in delay of implementation of this project.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

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5.5 SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Revenue/ expense item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization difference	% of Utilization Difference to Final Budget
	a	b	C=a+b	d	E=d-c	F=e/c%
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Balance B/F						
RECEIPTS						
Exchequer releases	931,443,529					
County Exec						
Total Receipts	**931,443,529**					
Payments						
Compensation of Employees	455,519,548	-13,019,734	442,499,814	442,045,191	454,623	0.10%
Use of Goods and Services	389,730,452	87,756,280	477,486,732	477,398,155	88,577	0.02%
Other Grants and Transfers	-	12,000,000	12,000,000	12,000,000	-	0.00%
Total	**845,250,000**	**86,736,546**	**931,986,546**	**931,443,346**	**543,200**	**0.06%**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

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5.6 SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Revenue/ expense item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization difference	% of Utilization Difference to Final Budget
	a	b	C=a+b	d	E=d-c	F=e/c%
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Balance B/F						
RECEIPTS						
Exchequer releases	9,738,662					
Total Receipts	**9,738,662**					
Payments						
Acquisition of Assets	66,500,000	20,730,137	87,230,137	9,738,662	72,261,475	88.12%
Other Expenses						
Total	**66,500,000**	20,730,137	**87,230,137**	**9,738,662**	**72,261,475**	**88.12%**

Note: In acquisition of assets the underutilization is due to lengthy processes involving National Land Commission in acquisition of land for speaker's residence.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

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5.7 BUDGET EXECUTION BY PROGRAMMES

Name of the Programme	Printed /Revised Gross Estimates (Kshs.)	Estimates	Final Budget	Actual on comparable basis	Budget Utilization Difference
	Ksh	Ksh	Ksh	Ksh.	Ksh.
Legislation and Representation	440,322,716.00	72,749,442	513,072,158.00	**512,617,536.00**	454,622
Legislative Oversight	232,895,200.00	-344,351	232,550,849.00	**232,550,849.00**	0
General Admin, Planning & Support	238,532,084.00	35,061,591	273,593,675.00	**196,013,623.00**	77,580,052.15
	911,750,000.00	**107,466,682**	**1,019,216,682.00**	**941,182,008.00**	78,034674.15

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The County Assembly of Meru financial statements were approved on 13th September 2019.

Clerk- County Assembly of Meru

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5.8 SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy notes below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The statement of assets and liabilities, although not a requirement of the IPSAS Cash Standard, has been included to disclose information on receivables and payables.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the County Assembly of Meru all values are rounded to the nearest Kenya Shilling. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2. Reporting County Assembly of Meru

The financial statements are for the County Assembly of Meru. The financial statements encompass the reporting County Assembly of Meru as specified in section 164 of PFM Act 2012.

3. Recognition of receipts and payments

a) Recognition of receipts

The County Assembly t recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Assembly.

Tax receipts

Tax Receipts is recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

Transfers from the Exchequer/ County Treasury

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving County Assembly of Meru.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Receipts

Other receipts relate to receipts such as tender fees among others. These are recognised in the financial statements when the associated cash is received.

b) Recognition of payments

The County Assembly of Meru recognises all expenses when the event occurs and the related cash has actually been paid out by the County Assembly of Meru.

Compensation of employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public County Assembly of Meru and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

4. In-kind contributions

In-kind contributions are donations that are made to the County Assembly of Meru in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the County Assembly of Meru includes such value in the statement of receipts and payments both as receipts and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited /restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

There were no other restrictions on cash during the year.

6. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

7. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized as accounts payables. This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted and prescribed by the Public Sector Accounting Standards Board. Other liabilities including pending bills are disclosed in the financial statements.

8. Non-current assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the County Assembly of Meru fixed asset register a summary of which is provided as a memorandum to these financial statements.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the County Assembly of Meru at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

10. Budget

The budget is prepared on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The County Assembly of Meru budget was approved as required by Law .The original budget was approved by the County Assembly on 17th July 2018 for the period 1st July 2018 to 30 June 2019 as required by law. There were two supplementary budgets passed in the year. A high-level assessment of the County Assembly of Meru actual performance against the comparable budget for the financial year under review has been included in the Statement of Comparison between actual and budgeted amounts included in these financial statements.

11. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

12. Subsequent events

Events subsequent to submission of the financial year end financial statements to County Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of the County Treasury.

13. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

14. Related party transactions

Related party transactions involve cash and in kind transactions with the National Government, National Government entities and County Government entities. Specific information with regards to related party transactions is included in the disclosure notes.

5.9 NOTES TO THE FINANCIAL STATEMENTS

1. EXCHEQUER RELEASES

	2018-2019	2017-2018
	Kshs.	Kshs.
Total exchequer releases for quarter 1	151,977,755	91,000,000
Total exchequer releases for quarter 2	326,446,679	200,000,000
Total exchequer releases for quarter 3	202,000,000	571,395,490
Total exchequer releases for quarter 4	260,757,757	311,638,785
Total	**941,182,191**	**1,174,034,275**

2. TRANSFERS FROM OTHER GOVT ENTITIES

	2018-2019	2017-2018
	Kshs.	Kshs.
Transfers from county executive	-	10,907,917
Total		**10,907,917**

3. COMPENSATION OF EMPLOYEES

	2018-2019	2017-2018
	Kshs.	Kshs.
Basic salaries of permanent employees	180,104,164	179,170,225
Basic wages of temporary employees	42,341,055	23,764,428
Personal allowances paid as part of salary	167,767,248	118,409,202
Pension and other social security contributions	51,832,724	74,948,812
Compulsory national social security schemes		
Total	**442,045,191**	**396,292,667**

4. USE OF GOODS AND SERVICES

	2018-2019	2017-2018
	Kshs.	Kshs.
Utilities, supplies and services	2,430,000	2,960,071
Communication, supplies and services	2,929,584	538,503
Domestic travel and subsistence	208,976,221	145,949,725
Foreign travel and subsistence	70,010,000	15,434,500
Printing, advertising and infor. Supplies and services	8,699,999	4,645,509
Rentals of produced assets	1,380,000	941,404
Training expenses	13,276,400	39,334,266
Hospitality supplies and services	71,424,261	63,258,253
Insurance costs	31,371,453	32,424,134
Specialized materials and services	610,350	338,783
Office and general supplies and services	5,427,209	5,344,993
Other operating expenses	54,295,799	45,953,584
Routine maintenance- vehicles and transport equip	2,999,999	3,307,593
Routine maintenance- other assets	571,280	2,422,695
Fuel, oil and lubricants	2,995,600	3,058,220
Payables from previous financial year		-
Total	**477,398,155**	**365,912,233**

5. OTHER GRANTS AND OTHER PAYMENTS

	2018-2019	2017-2018
	Kshs.	Kshs.
Other current transfers and grants	12,000,000	400,000,000
Total	**12,000,000**	**400,000,000**

6. ACQUISITION OF ASSETS

	2018-2019	2017-2018
	Kshs.	Kshs.
Construction of buildings	-	10,907,917
Overhaul and refurbishment of chamber	4,508,662	-
Purchase of office furniture and Gen equip	2,350,000	11,828,767
ICT equipment	2,880,000	-
	9,738,662	**22,736,684**

7. A. BANK ACCOUNTS

Name of bank, account No. & Currency	Amount in bank A/c currency	Recurrent, development	Exc rate (foreign) Currency	2018-2019	2017-2018
				Kshs.	Kshs.
Equity bank-0140261449618		Imprest A/C		-	-
IFMIS-1000194677		Recurrent		183	608
IFMIS		Development		-	-
TOTAL				**183**	**608**

8. BALANCES BROUGHT FORWARD

Name of bank, account no & currency	Amount in bank account currency	2018-2019	2017-2018
		Kshs.	Kshs.
Equity bank- 0140261449618	Kes	-	-
CBK- Recurrent	kes	183	608
Total		**183**	**608**

5.10 OTHER IMPORTANT DISCLOSURES

1: REVOLVING FUND ACCOUNT

Name of bank, account no & currency	Amount in bank account currency	2018-2019	2017-2018
		Kshs.	Kshs.
Equity bank- staff mortgage 0140267706704		1,647,857	3,904,543
Equity bank- MCAs mortgage 0140276191615		89,508,337	16,511,967
Total		**91,156,194**	**20,416,510**

6. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Ref No	Issue	Management Comments	Focal Point	Status	Time Frame
1.	Cash and cash equivalents	Undertaking bank reconciliation	Account office	Resolved	
2.	Omission of outstanding imprest	To clear imprest surrendered on both manual and in the IFMIS	Account office	Resolved	
3.	Nugatory contribution to CAF	To persue its legalisation	Clerk and speaker	Resolved	
4.	Irregular recruitment of ward employees	SRC gave guidelines on recruitment	The county assembly service Board	Resolved	
5.	Incomplete fixed assets	Fixed assets fully updated	Finance officer	Resolved	
6.	Pending bills	Ensure all pending bills are fully supported	Finance officer	Resolved	
7.	Unresolved 2014/2015 audit issues	All issues were addressed	Principal accountant	Resolved	

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ANNEXES
ANNEX 1: SUMMARY OF FIXED ASSETS

	2018-2019	TOTAL TO 30TH JUNE 2019
	Kshs.	Kshs.
Refurbishment of chamber	4,508,662	177,883,795
Office furniture and office equipment	2,350000	24,173,718
ICT equipment	2,880,000	9,535,780
TOTAL	**9,738,662**	**211,593,293**

The above summary of fixed assets does not include the value of land and building prior to reestablishment under the County Assembly of Meru. This is because the Transition Authority has not finished the transition process to grant ownership or value of the same.